

## Message Text

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PAGE 01 TEL AV 05359 151420Z

45

ACTION NEA-10

INFO OCT-01 ISO-00 IO-10 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 AGR-05 FEAE-00 PA-01 PRS-01 /095 W

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R 151236Z AUG 75

FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC 7974

LIMITED OFFICIAL USE TEL AVIV 5359

E.O.11652: N/A

TAGS: EFIN, IS

SUBJECT: ISRAELI ECONOMY

REF: TEL AVIV 5044

1. LOCAL PRESS HAS REPORTED CONCLUSIONS OF IMF TEAM WHICH RECENTLY VISITED ISRAEL TO DISCUSS ISRAEL' REQUEST FOR \$175 MILLION FINANCING FROM IMF OIL FACILITY. TEAM NOTED THAT BOTH INFLATION RATE AND LEVEL OF IMPORTS HAVE DECLINED. HOWEVER, MAIN OBJECTIVES OF ECONOMIC POLICY FOLLOWED OVER PAST YEAR, I.E., EXPANSION OF EXPORTS AND SIGNIFICANT DROP IN CONSUMPTION, HAVE NOT BEEN ACHIEVED. MOREOVER, IMPORT DECLINE HAS BEEN ACHIEVED MAINLY AS RESULT OF STOCKPILING AND CONSUMER BUYING SPREE WHICH TOOK PLACE PRIOR TO INTRODUCTION OF RESTRAINTS LAST NOVEMBER.

2. IMF TEAMS' POLICY RECOMMENDATIONS INCLUDED: NO ADDITIONAL LIQUIDITY INTO ECONOMY IN SECOND HALF 1975; CUTS IN BUDGET AND INCREASE IN TAXES DURING PERIOD BEFORE VAT IS IMPLEMENTED; ADOPTION OF ZUSSMAN RECOMMENDATIONS ON COST-OF-LIVING ( SEE TEL AVIV 4990) CONTINUATION OF

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PAGE 02 TEL AV 05359 151420Z

CREeping DEVALUATION ARRANGEMENT; SHIFT IN ISRAEL'S POUND'S

LINKAGE FROM DOLLAR TO TRADE-WEIGHTED BASKD OF CURRENCIES;  
NO ADDITIONAL EXPORT INCENTIVES AND GREATE EMPHASIS ON  
TRANSFER OF RESOURCES FROM LOCAL CONSUMPTION TO EXPORTS.

3. COMMENT: IN RECENT DISCUSSIONS WITH OFFICIALS IN  
MINSTRY OF FINANCE AND BANK OF ISRAEL IT WAS REVEALED THAT  
ORIGINAL INTENTION WAS TO ALTER LINKAGE OF ISRAEL POUND AT  
SAME TIME CREEPING DEVALUATION WAS ADOPTED. HOWEVER,  
SOME MINISTERS FELT THAT LINKAGE ISSUE WAS TOO COMPLEX TO  
INCLUDE WITH OTHER MEASURES AT THAT TIME. BANK OF ISRAEL  
OFFICIALS NOW NOTE RUEFULLY THAT OVER SUBSEQUENT TWO MONTHS  
DOLLAR AND ISRAEL POUND HAVE RISEN SOME 10 PERCENT AGAINST  
EUROPEAN CURRIENCIES. AS RESULT EFFECTS OF FIRST TWO  
DEVALUATON UNDER CREEPING ARRANGEMENT HAVE BEEN  
NULLIFIED. MEANWHILE, SPECULATION CONINUES WITH BLACK  
MARKET RATE OF ISREL POUND NOW ABOUT 7.60 PER DOLLAR.

4. WE ASSME THAT SOONER OR LATER ISRAEL WILL ALTER LINKAGE  
OF POUND AS INDICATD ABOVE. WE WOULD NOT RULE OUT ONE-TIME  
DEVALUATON LARGER THAN CURRENT 2 PERCENT PER MONTH TO  
QUOTE RECOVER UNQUOTE COMPETITIVE ADVANTGE LOST FROM RECENT  
RISE IN DOLLAR EXCHANGE RATE. AS FOR ADDITIONAL  
AUSTERITY MEASURES, LEVEL OF U.S. ASSISTANCE WILL HAVE  
IMPORTANT BEARING ON GOI DECISIONS. IN THIS REGARD,  
FIANCE MINISTER RABINOWITZ STATED IN AN INTERVIEW ON AUGUST 8  
THAT QUOTE SHOULD ECONOMIC ASSISTANCE FROM THE U.S. BE CUR-  
TAILED , WE SHALL HAVE TO MOVE TO AN EMERGENCY ECONOMIC  
REGIME AND TO CHANGE THOROUGHLY OUR PATTEN OF LIFE UNQUOTE.  
SIMILAR COMMENTS WERE RECENTLY MADE BY MINISTER OF  
COMMERCE AND INDUSTRY BAR-LEV.  
TOON

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## Message Attributes

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